

STATEMENT BY JOHN C. HAMLIN
BEFORE THE FIELD HEARING OF THE
ENERGY AND POWER SUBCOMMITTEE
OF THE HOUSE COMMERCE COMMITTEE
RICHMOND, VIRGINIA
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SUMMARY

Are Virginia municipal systems in favor of “Customer Choice”? In a word, yes, but this is a very complex issue and there are many concerns which must be addressed. These concerns include:

- The wholesale market has not had time to develop since the Energy Policy Act of 1992
- Complex state and local issues dictate that decision-making should remain at that level
- Reliability at all levels, generation, transmission and distribution, must be maintained
- Electric service is very complex from policy, operational, and technological standpoints
- A ‘date certain’ does not allow a smooth transition because of the complexities involved
- The federal government should play the following roles in securing transmission access:
 1. Mitigation of market power by large generation/transmission companies
 2. FERC authority over transmission system reliability
 3. Removal of tax restrictions impeding municipal ability to compete

These concerns notwithstanding, we would like to make the following positive points about the state of competition within Virginia:

- Virginia has already taken steps to bring the benefits of competition to electric consumers
- Several municipalities are returning savings from wholesale competition back to consumers

INTRODUCTION

Thank you for the opportunity to discuss issues related to the ongoing restructuring of the electric utility industry from a consumer perspective. My name is John C. Hamlin and I am pleased to testify on behalf of the Municipal Electric Power Association of Virginia, which represents all sixteen (16) municipal public power systems in Virginia and, in particular, on behalf of my hometown, the City of Danville, Virginia. Municipal electric utilities in Virginia have served their customer-owners, now numbering 140,000, since the late 1800s to early 1900s, for Danville (which serves 41,000 customers) since 1886, or 111 years.

As the Manager of Distribution and Marketing for a local beverage distributor, I am also here on behalf of retail customers like my employer. We have an average monthly electric bill of \$2,500. This is a significant portion of our operating cost. Thus, we certainly have an interest in obtaining the benefits of the competitive electric generation market as soon as is feasible, but not at the cost of compromised reliability or confusing marketing techniques as we have experienced with the telephone and cable television companies. In addition, I serve on the City Council in Danville and in that capacity have direct input into how well Danville's electric system is serving the customer, in terms of price and quality of service.

DISCUSSION

The Municipal Electric Power Association of Virginia does indeed support the concept of customer choice. As public power systems we are owned by our customers, so customers have been our focus ever since our inception over 100 years ago. If our customers can benefit from the implementation of retail competition, we support it. However, we feel very strongly that a December 15, 2000 mandated transition date does not allow sufficient time to adequately consider and address the many critical and complex issues involved. A brief discussion of these issues follows.

The Energy Policy Act of 1992 has been in effect for 5 years now. Most utilities, and hence their customers, have not yet realized the benefits of the competitive generation market. It so happened that the timing of the legislation was such that a few municipalities in Virginia, including the City of Danville, were in the last years of their existing power supply contracts when this legislation was enacted. This allowed us to be on the leading edge of wholesale deregulation and we were proud to be among the pioneers accessing the wholesale market. We have been purchasing competitive power on a partial basis since 1994 and will be taking full power supply from a competitive supplier effective in 1998. Even though we were among the first to explore the wholesale market, it will be six years after the 1992 legislation before these benefits will be realized. Many other utilities in Virginia, and throughout the country, have not yet had the opportunity to 'shop the market' for their power supply requirements due to existing long-term power supply contracts. Should the federal government intervene in these contracts and negate them in order to promote customer choice? We think not. The states should deal with contractual issues and the stranded investment concerns that they present. The competitive aspects of wholesale deregulation provided by the 1992 legislation should be given time to

develop and mature before retail customer choice is instituted. There is much that will be learned from this process which could only assist in a smooth transition to competition at the retail level.

Each state and locality has different and complex sets of issues related to the provision of electric service. These issues have developed over a long period of time as a result of the experiences, policy decisions, etc., of each locality. It is only logical that these state and local regulatory bodies are most familiar with the issues specific to it, and therefore they should retain the responsibility to evaluate the ways in which retail customer choice will benefit the local consumers. They should be allowed to make the final decision on whether, or how and when to implement retail competition. For municipalities, this allows individuals to use the democratic process in their own communities by making the decisions which will no doubt have tremendous effect on the local economies. This can not be mandated to happen in a period of time that is very short relative to the amount of time it took to develop and implement the service policies that now exist (2 to 3 years versus over 100 years). A smooth transition in this short period of time simply can not happen.

Electric consumers must not be subjected to a reduction in the reliability of the service provided to them. This applies to the generation, transmission and distribution systems. Reliability has been, and must remain, a top priority and must not be sacrificed in the name of 'efficiencies' imposed for the sake of competition. This is another area where a short transition period could have dramatic effects. The federal government can play a key role in ensuring that reliability is maintained, as will be discussed below.

There are areas where the federal government can and should be involved to ensure effective, robust and fair competition. The primary role of federal legislation should be to facilitate the decision-making process by state and local regulators and to provide assistance in the implementation of retail competition. To the extent that the electric utility industry involves interstate commerce, the federal government does indeed have a natural interest in some of the methods by which retail competition could be implemented. The transmission path between the generator and the distributor must be federally secured to promote system reliability and to ensure fairness and equality in system access in a competitive environment. Some of the mechanisms required for this security include:

- Steps must be taken to prevent the exercise of market power by the large generation/transmission companies. Mitigation of market power can be enhanced by retaining the consumer protections provided by PUHCA until true retail competition is mature enough to provide these protections inherently. In addition, FERC must have the power to ensure mergers are kept to a minimum and, when proposed, reviewed very carefully to ensure that the public interest is maintained and that it does not hinder a competitive environment. Secret rates must not be allowed; all consumers should have access to market information. Complete divestiture, or separation of functions, of generation, transmission, and distribution is another option that should be investigated to prevent the use of market power by large companies.
- Give the FERC the absolute authority to see that reliability is maintained on the nation's transmission systems. As stated earlier, reliability must remain a top priority as the market is opened for competition. This would require the FERC to order and oversee the establishment of completely neutral regional Independent System Operators to manage the

operation of transmission systems, having responsibility for reliability, fair access and planning.

- Federal tax restrictions on private use that disadvantage public power systems' ability to compete must be removed. If outside utilities are allowed to compete for existing public power customers, public power utilities must be allowed complete reciprocity in the ability to use facilities funded by tax-exempt bonds to compete outside of their territories.

Obviously, many states have already initiated studies or, in several cases, passed legislation to implement customer choice. Virginia is one of the states where legislative groups, regulatory bodies and electric utilities (municipal, cooperative and investor-owned) are working together to study the possible re-structuring of the electric utility industry. Some of the things that the state and local regulatory bodies are doing in Virginia to bring the benefits of competition to their customers include:

- The State Corporation Commission completed a 400-page study report in July 1996, held a state-wide forum and now has five working groups tasked with developing a retail model or models that will be presented to the General Assembly in November 1997. Virginia municipalities are actively participating on these working groups to contribute to the development of these models.
- Municipal regulating bodies will incorporate the findings of the state efforts in their deliberations over customer choice.
- The State legislature has a joint subcommittee that plans to introduce legislation in its 1998 session to address the implementation of "customer choice" in Virginia. This legislation will depend heavily on the results of the studies currently underway by the State Corporation Commission.

- As mentioned earlier, several Virginia municipalities, including the City of Danville, are accessing the wholesale market and will be realizing significant savings. In keeping with the primary philosophy of public power, these savings will be returned directly to the communities to benefit the customer-owners of the utilities. These savings will begin to be realized as soon as July, 1998.
- Municipalities with long-term power supply contracts have achieved lower power supply costs from the use of behind-the-meter generation for peak-shaving purposes which has provided benefits for their customers and communities.

CONCLUSION

Municipal electric utilities in Virginia, and nationwide, have always put the interests of their customer-owners first and foremost. Savings and revenues remain in the communities. This has, historically, been a very successful method of regulation. We feel strongly that the decision-making process should remain at the state and local levels and not be mandated by federal legislation. The federal role should be to facilitate this decision making process and to promote the efficiency and reliability of the interstate transmission system.

Customer choice is a concept that most municipal utilities support. However, time must be allowed to address the service issues of individual states and localities and to study the successes and failures of the competitive wholesale market. The concerns surrounding market power, reliability, and tax restrictions must be evaluated carefully before the transition is made.